FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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Foreign Dividend Kings

The stocks that have the highest long-term returns are those that increase their dividends each year, followed by stocks that pay the same dividend every year, followed by stocks that don't pay a dividend. Stocks that cut or eliminate their dividend have the worst returns.

Growing dividends are indications of a healthy business that has a wide moat that can protect the company from competitors. They also not only demonstrate that management cares about shareholders, but help ensure that they will continue to do so, because you don't want to be the first CEO to stop increasing the dividend each year after decades of annual increases.

Since the value of an asset is equal to the present value of future cash flows (especially dividends) discounted at an appropriate discount rate, a growing dividend helps provide a basis for a growing stock price and thus capital gains.

You may have heard of Dividend Kings, which are stocks that have increased their dividend each year for at least 50 consecutive years. Similarly, there are Dividend Aristocrats (25-49 consecutive years of dividend increases), and Dividend Champions (15-24 years). I also made up the categories of Dividend Achievers (10-14 years), Dividend

Challengers (7-9 years) and Dividend Upstarts (4-6 years).

These stocks are examples of the Lindy Effect, which states that the longer that something has been around (or has been happening), the longer it is expected to be around. Investors (and their human brains) are infatuated by the new, but they would be better served if they clung to the old like a trusted car mechanic. This is why in my massive stock tracking spreadsheet, I keep these stocks in their own special category, as they are highly desirable long-term holdings. Unfortunately, they are not available at bargain prices very often, usually only when the vast majority of investors have lost their minds and are panicking.

The bulk of the world's investment opportunities (and market capitalization) are outside of the U.S., but all of the stocks in the categories above are American companies. And with the Fed and federal government destroying the value of the U.S. dollar and much of the rest of the world moving away from it as a result, most foreign currencies should appreciate against the dollar in the years ahead, resulting in currency gains for Americans who invest in foreign stocks.

But aren't there a number of international stocks that have increased their dividend every year (in their home currency) for years? There are, but the reasons you haven't seen lists of these stocks in categories like the ones above are because it requires (1) a non-U.S. dollar perspective, (2) access to data about dividends denominated in foreign currencies and (3) some grunt work; I have all three.

Thus far I have limited my research on international stocks to those that trade on U.S. exchanges and are denominated in U.S. dollars (including any dividends they pay). There are thousands more international stocks that don't trade on any U.S. stock exchanges and are denominated (including their dividends) in a foreign currency. Although it's technically possible to invest in such stocks, repeatedly converting currency can become expensive, and placing trades on foreign exchanges could be complicated and difficult.

If you invest in international stocks but don't hedge your currency exposure, you are implicitly accepting whatever foreign currency gain or loss you receive, which actually helps to diversify the portfolio of a U.S. investor. So as long as a company is increasing its dividend every year in its home currency, I shouldn't care too much about how many U.S. dollars I'll receive as a result, because at a minimum, it will all wash out in the end. Ideally, I'll receive a currency capital gain if the dividends I receive from a foreign company appreciate in value against the U.S. dollar.

Thus far in my research, I have found fewer international stocks that have a long history of increasing their dividends each year. I think there are a number of reasons for this. First, European companies usually have to deal with higher taxes and more onerous government regulations, which makes them less profitable and thus less able to pay and increase dividends. The culture of these countries (including the management of their companies) is generally all in on nonsense initiatives such as ESG, stakeholder capitalism, climate change, DEI, etc., which makes them even less profitable. Additionally, few countries have as much of an entrepreneurial, risk-taking and widespread equity ownership culture as the U.S.

In conclusion, I have found quite a few international stocks that trade on a U.S. exchange and that have consistently increased their dividend in recent years. I plan to prioritize obtaining exposure to these (at a good price) just as much as their American brethren, if not more so.

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